



New Issue: MOODY'S ASSIGNS Aa3 RATING TO CITY OF HOOVER'S (AL) \$19.8 MILLION G.O. WARRANTS

Global Credit Research - 24 Mar 2005

Aa3 AFFIRMATION AFFECTS \$131 MILLION OF OUTSTANDING G.O. DEBT, INCLUDING THE CURRENT ISSUE

Municipality
AL

Moody's Rating

| ISSUE | RATING |
|-----------------------------------|--------------------------------|
| General Obligation Warrants, 2005 | Aa3 |
| Sale Amount | \$19,810,000 |
| Expected Sale Date | 03/29/05 |
| Rating Description | General Obligation Limited Tax |

Opinion

NEW YORK, Mar 24, 2005 -- Moody's Investors Service has assigned a Aa3 rating to the City of Hoover's \$19.8 million G.O. Warrants. The warrants are secured by a general obligation limited property tax pledge of the city. Concurrently, Moody's has affirmed the Aa3 rating on \$131 million of parity debt, including the current refunding issue. The current issue will advance refund a portion of the Series 1999 and 2003 warrants for an estimated net present value savings of approximately 2.5% of refunded principal. The Aa3 rating reflects the city's strong economy, solid financial position and moderate debt burden. At the same time, Moody's has affirmed the Aa3 Issuer Rating (G.O. ULT), which reflects our assessment of Hoover's implicit unlimited general obligation credit strength. Importantly, there is no debt outstanding with this security, and Alabama law does not permit the issuance of unlimited ad valorem tax-backed debt.

STRONG ECONOMY WITHIN BIRMINGHAM-HOOVER MSA

The City of Hoover straddles Jefferson (Issuer Rated Aa2) and Shelby Counties (Issuer Rated Aa1), and is a major residential and retail hub within the rapidly growing Birmingham-Hoover Metropolitan Statistical Area. The Birmingham-Hoover MSA surpassed one million residents in 2002 to become the 53rd largest such area in the US. The City serves as a suburban base for higher income commuters to Birmingham (Issuer Rated Aa3), but also has its own diverse employment base that includes BlueCross/Blue Shield of Alabama, AmSouth Bank (A2), and Accenture in addition to a large retail base. Hoover's extremely low unemployment rate of 1.6% in December 2004 has stayed well below state and national levels throughout the recent years' economic slowdown, and has been enhanced in the past two years by the addition of 3,000 higher paying jobs in an AmSouth building nearing completion. The city is home to a plethora of retail outlets, most notably the high-end Riverchase Galleria, but continues to add new stores, including Best Buy, Kohl's, WalMart, AutoMax and Publix, along its Route 280, 150 and 31 corridors. Hoover, which has several highly-rated golf courses, currently hosts one PGA Tournament each year and will seek another for the new course being constructed in its Shannon Valley development. The city's ad valorem tax base has grown by an average 7.5% per year since 1998, to a substantial \$6.3 billion, and full value per capita was a high \$100,419 in 2003. Median family income of \$79,912 is nearly double the State of Alabama (Aa3/watchlist of possible upgrade) level, and 35.5% of City households earned more than \$100,000 in 2000.

AMPLE RESERVES MITIGATE CITY'S RELIANCE ON VOLATILE SALES TAX REVENUES

Moody's believes that Hoover's financial position is solid, as ample reserves provide an operating cushion that mitigates the city's heavy reliance on sales tax revenues. Unaudited fiscal 2004 results indicate that the city's operating funds received 64.2% of revenues from a 3.5% sales and use tax, a level that has remained constant over the past five years. Despite the usual volatility associated with economic sensitive sales taxes, Hoover's receipts

from this source has grown by a healthy annual average of 6.0% over the past decade. Approximately 25% of these revenues come from a single location, the Riverchase Galleria, which does present some concentration risk for this revenue source. However, the mall has recently had a large retailer move back into a vacant space, and Moody's expects the Galleria to remain an important retail location for the entire state. While property taxes comprised only 9.6% of fiscal 2004 operating revenues, this revenue stream should be enhanced by a change to annual property revaluations by the county. The city does not have to adjust its millage rate which will allow it to capture annual increases in its revenues. General Fund balance for fiscal 2004 (unaudited) ended at \$28.4 million, or 35.4% of fund revenues, down slightly from the fiscal 2003 level of \$30.6 million. Officials indicate that, in addition to increasing General Fund reserves, higher than budgeted revenues allowed them to increase the transfer to the Capital Projects Fund in fiscal 2004 by an additional \$600,000 to \$3.6 million. The city plans to fund capital projects for the next five years either through cash-flow or accumulated reserves within the Capital Projects Fund.

MODERATE DEBT BURDEN WITH NO FUTURE BORROWING PLANNED

Moody's views the city's debt position as manageable, as the city's lack of borrowing plans should reduce its moderate direct debt burden in the near-term. The city's overall debt burden is high, at roughly 7.7% of full valuation, with a more moderate direct debt burden of 2.1%, following Jefferson County's issuance of \$1 billion in sales-tax backed bonds in early 2005. The Hoover County Board of Education is expecting approximately \$79 million from the county's bond sale, which it plans to use defease a portion of its outstanding debt, which will reduce the city's overall debt burden, which includes all overlapping obligations. However, proceeds from the sales tax bonds are currently being held in escrow and will not be released until all litigation challenging the legality of the Educational Sales and Use Tax securing the bonds is resolved in the county's favor. (See Moody's report on Jefferson County published January 26, 2005.) Officials indicate that all capital projects planned for the next five years will be paid from cash-flow or reserves accumulated in the Capital Projects Fund.

KEY STATISTICS

Population: 64,265

2003 Full Valuation: \$6.04 billion

2003 Full Value Per Capita: \$100,419

Per Capita Income as % of State (1999): 183.4%

Overall Debt Burden: 4.9%

Amortization of Principal (10 Years): 44.4%

Fiscal 2004 General Fund balance (unaudited): \$28.4 million (35.4% of G.F. revenues)

Fiscal 2003 General fund balance: \$30.6 million (26.8% of G.F. revenues)

Unemployment (December 2004): 1.6%

Post-issue Parity Debt Outstanding: \$131 million

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